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ABSTRACT

In the 1986 Amendments to the Higher Education Act of 1965, Congress mandated the specific system of need analysis to be used in determining need for most of the programs authorized in Title IV of the Act. This system will replace the system called Uniform Methodology (UM) for federally supported programs and is expected to be adopted for most state and institutional supportd programs. The implications of the change in governance and specific changes in the methodology are presented. A background and definition of the issue looks at the federal government and postsecondary education and characteristics of California students. A section on history, theory, and operation of need analysis focuses on theory and governance of need analysis, operation of the Uniform Methodology, development of the Congressional Methodology (CM) system, operation of the CM, and implications of the CM system. Governance questions raised by the adoption of the CM focus on criticism of the CM and support for the CM. In discussing critical issues, it is noted that for most financial aid administrators, students, and families, the change from UM to CM will result in confusion. It will require changes in computer systems, forms, and procedures. It is critical that the CM serve as a true need analysis methodology which can be used to determine a student's need for assistance from all sources without regard to availability of funds from any particular source. It should not be reduced to a formula determining eligibility for a particular program. Contains 8 references. (SM)

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THE EUREKA PROJECT

A Review of Student Financial Aid in California

Measuring Financial Need:

A Review of Student Financial Aid Eligibility Standards

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March 1988

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PREFACE

Student financial aid has become a major and complex educational industry. This year in California alone expenditures will be approximately $1.5 billion in all forms of financial assistance—grants, loans, and jobs. It is not only large, it is also complex. Anyone who has been associated with student financial aid is soon struck by how complicated the rules and structure are and how the students and colleges must deal with a multitude of agencies and organizations.

Thirty years ago student financial aid in California was less than $10 million. The few government programs that existed were relatively simple in design. While funds were inadequate, the standards and procedures were comprehensible to all involved. Administration was, by today's standards, simple. Limited student financial aid, largely scholarships, was an activity funded by individuals, college endowments, and local groups. Even scholarships financed by PTA bake sales or similar activities were important to the total structure of financial aid.

Over the last three decades all financial aid has grown and its composition and sources of funding have markedly changed. In the last ten years loans have replaced grants and scholarships as the principal form of student aid. With a massive infusion of loan funds through commercial lenders, the nature of student financial aid has changed.

As student financial aid has assumed a larger role in postsecondary education, it has become more important to review the policies that have undergirded it. Policies, either as specifically adopted or developed in an evolutionary way, need to be reviewed for their past effect, current value, and future utility. Problem policies need to be identified and policies appropriate for the balance of this century developed.

Concerns about student aid policies led to the creation of The Eureka Project, a privately organized, funded, and directed review of student aid policies in California. It is entirely funded by major grants from the James G. Irvine, Weingart, and Haynes Foundations, and by a supplemental grant from the Atlantic Richfield Foundation.

The Eureka Project is under the general direction of a board of directors, with more technical and specific advice to the project given by a steering committee composed of representatives of interested groups and institutions in California. A staff of consultants has come together to direct and write the various studies under The Eureka Project.

The Eureka Project is studying the financing of higher education opportunities in California and the impact of current financial aid programs upon the formal structure of higher education and students. There is concern that the door of educational opportunity may be closing, that the health and vitality of quality independent institutions could be at risk, and that the current student financial aid system has a wide range of unintended consequences.

The Eureka Project anticipates issuing approximately a dozen reports. These reports will endeavor to stimulate policy review of student financial aid and financing of higher education in California and will be offered by the Board of Directors as thoughtful documents for that purpose. The reports will not necessarily represent the views of members of the Board of Directors or of the four California foundations whose grants have made The Eureka Project possible.

This report, "Measuring Financial Need: A Review of Student Financial Aid Eligibility Standards," is largely the work of John B. Lee. A number of individuals have participated in its preparation by assisting in its design, supplying information and text or by commenting upon the document in earlier drafts and the final product. We wish to recognize their helpful assistance. We are particularly grateful to an advisory committee consisting of Ralph Alvarez of California State University, Sacramento, Linda Caplan of El Camino College, Robert Huff of Stanford University, Marilyn Jaeger of the University of California, Ron Johnson of the University of California, Davis, Allison Jones of California State University, and James Sanderson. Dave Levy of Occidental College, Peter Prentiss of the California Student Aid Commission and William Van Dusen also provided helpful suggestions.

Arthur S. Marmaduke
Executive Director
The Eureka Project

EXECUTIVE SUMMARY

Student financial aid is an important component of higher education finance. Roughly 45 percent of all undergraduates receive some form of student aid; about 33 percent receive federal funds. Most aid is distributed to students on the basis of financial need. The focus of this report is the procedure used to calculate the ability of a family to pay for college, which in turn is used to evaluate the student's need for financial aid. Student financial aid administrators have used a need analysis system called the Uniform Methodology (UM) developed and amended by the postsecondary education community and approved by the Department of Education to evaluate financial need. Prior to 1988-1989 the methodology was used to help financial aid administrators award federal, state and private funds to students equitably.

In 1986 the Congress wrote a detailed need analysis methodology into law which must be used to award all federal aid. This new system goes into effect in 1988-1989. The ability to determine student financial aid need analysis standards has been removed from the college community and replaced by Congressional authority. There is concern in the educational community that this new Congressional Methodology (CM) will be distorted by political and financial objectives and will reflect the financial need of students less accurately. Changes in governance may lead to changes in the logic and operation of the methodology. If this were to happen, student aid administrators would find it difficult to use the methodology to make equitable awards.

Those supporting the Congressional Methodology point out that need analysis is not a science, but a process that allocates scarce resources among numerous claimants. The process is a political one that must consider a number of competing interests. They further argue that moving the process away from student aid professionals into the more accessible forum of Congress will allow a broader expression of public interest to be considered, which should increase fairness.

Regardless of the longer term implications of the change, there may be dislocations in 1988-89 when everyone begins using the new methodology. Some students who have been aided may lose their eligibility while others who have not been eligible may gain it.

It is difficult to anticipate the type and magnitude of change because one of the key options of the new law allows campus aid administrators to modify results of the methodology in individual cases. The degree to which aid administrators will make individual changes is an unknown factor in the new methodology.

This report reviews changes that have been made in the methodology and suggests possible problems and dislocations that may be experienced as it is

implemented. The greater politicalization of the need analysis system as a result of the 1986 legislation will require that more public policy makers become involved in the discussions about need analysis methodology. The professional student financial aid community will need to spend more time helping elected officials understand the implications of the system for students, institutions and the state so Congress can draft appropriate legislation.

Because California has the largest population, it has the most representatives in Congress. It may be that some of the negative impacts of the CM on students in the state can be minimized by improving communications with members of Congress. This will require an ongoing effort on behalf of the student financial aid community to explain the subtle and complicated need analysis process to those outside the profession. Clearly, this shift in governance will reduce the direct role of the postsecondary education community in establishing educational and financial policies. College and university student financial aid administrators must establish communication channels with Congress to transmit their values and views.

1. BACKGROUND AND DEFINITION OF THE ISSUE

Need analysis is the methodology used to calculate a student's need for financial assistance to attend a postsecondary institution. Most public and private student aid is awarded according to financial need, so the system used by the student financial aid community to evaluate student need is a critical part in the delivery of student aid.

The system used through 1987-88 is called the Uniform Methodology (UM) and is largely governed by representatives of the postsecondary education community with final approval of the U.S. Department of Education. The UM system provides a set of standards which can be used to award institutional, state, federal and private funds to students. The UM replaced a number of different systems that had been developed to meet the local needs of institutions and states. The UM simplified and standardized the process for applicants and assured equitable treatment from all postsecondary institutions.

In the 1986 Amendments to the Higher Education Act of 1965, Congress mandated the specific system of need analysis to be used in determining need for most of the programs authorized in Title IV of the Act. The new law will be effective with the 1988-89 school year. The need analysis system was written into law and can only be changed by an act of Congress. This system will replace the Uniform Methodology for federally supported programs and is expected to be adopted for most state and institutional supported programs. The purpose of the report is to investigate the implications of this change in governance as well as specific changes in the methodology.

The Federal Government and Postsecondary Education

Student financial aid need analysis began with a few individual schools seeking to standardize the process by which they awarded aid to students. It has evolved into a national system dependent on the cooperation of institutions, states, and federal agencies to deliver billions of aid dollars to millions of students. Student financial aid has become a national policy issue with importance for the overall operation of postsecondary education. The need analysis system is a pivotal part of the process which determines who receives aid and how much a student can expect.

Federal programs have come to dominate student financial aid, providing at least 75 percent of all aid to students. Along with federal dollars has come increased federal influence on the determination of eligibility and need. In some people's minds this influence threatens to distort the need analysis system that has evolved over the last 30 years.

The federal government has increased all types of higher education funding significantly since World

War II. It is estimated that nearly 25 percent of all institutional revenues come from federal sources (Gladieux, 1987). There is direct support in the form of research and institutional funds and indirect support such as tax subsidies and student financial aid programs. The federal government provided $21.7 billion to higher education in 1985. Student aid totaled $10.3 billion and $10 billion was in the form of research and development funds. There was $1.4 billion in other institutional support. This total does not include the higher education tax subsidy because there are no good estimates of income provided by foregone taxes.

The price of federal support is federal control. There are a number of requirements that must be met if a college or university is to receive federal funds. Some of these fall into the category of administrative nuisance and cost. There are required forms, mandated audits, and other overhead activities related to accounting for federal funds. In some cases there are major financial implications exemplified by continuing arguments about the appropriateness of institutional overhead rates charged by universities to carry out federally funded research. There are critical standards contained in civil rights laws which define personnel and admission processes which must be followed by institutions receiving federal funds.

Even though the federal government has not involved itself in the direct operation of colleges and universities, there is the constant threat of intrusion. The current administration has criticized students and institutions regarding their use of student aid. Both members of Congress and the Secretary of Education have threatened to exclude schools whose students have a high default rate from participating in the Guaranteed Student Loan Program. This public criticism by federal officials, combined with increasingly rigid bureaucratic demands, has resulted in an uneasy alliance between the federal government and postsecondary education. One reason increasing control of the need analysis system is of concern is because it is part of a mosaic of activities and relationships that suggests greater federalization of postsecondary education.

Characteristics of California Students

The purpose of this report is to identify ways in which federal and, more specifically, Congressional domination of the need analysis system might affect the delivery of student financial aid in California. Based simply on numbers, California students and institutions represent an important share of the postsecondary community. In total there are 1.7 million college students in California, roughly 14 percent of the national total (1985 CPEC Directors Report). There are over one million students enrolled in community colleges, 148,000 in the University of California, 325,000 in the California State University, and 201,000 in independent colleges. In 1986 the California Student Aid Commission awarded $115 million in student grants using the UM with modifications.

California represents a unique demographic case compared to the rest of the nation. Just under 65 percent of the enrolled population is White, 8.2 percent is Black, 18 percent is Hispanic, 1.7 percent is Filipino, 7.5 percent Asian, Pacific Islanders, and 0.8 percent American Indian (1985 CPEC Directors Report). This percentage of minority students is large and is expected to grow in the near future.

California students have a different economic profile than the rest of the nation. Reported family assets are higher among financial aid applicants in California, according to the College Scholarship Service (CSS). The reason is probably due to higher home values in the state relative to other parts of the country. High assets increase estimates of how much a family may be expected to pay toward the costs of attendance. There are more students defined as independent or self-supporting in the state relative to national averages. Independent students' need is calculated on their income and not the income of their parents. Average income of financial aid applicants in California is lower than the national average. There are more students in California from single parent families. Students in California are less likely to have income from work than students in the nation as a whole. A higher proportion of California applicants are in graduate or professional programs than is the case in the rest of the nation.

California has a unique population. It is a diverse ethnic population, with each community having its own economic profile. Finally, California students differ financially from students nationally in ways that are critical to the ability to pay the costs of attending a postsecondary institution.

2. HISTORY, THEORY AND OPERATION OF NEED ANALYSIS

In order to understand the issues that surround this topic it is necessary to have some appreciation of the current UM system. Governance of the need analysis system grew to be more complicated with the growth of student aid programs. The basic principles and procedures of need analysis were developed to suit the needs of a small number of participants seeking to achieve a relatively limited set of purposes. It has come to serve a multitude of interests, constituencies, and purposes. The federal government utilized the existing method to help award funds in the newly authorized student financial aid programs. The loan, grant and work programs were designed to help different types of students. These new demands required modifications of the original methodology. At the same time the federal government was expanding student financial aid programs, more states and institutions began to use the need analysis system to make awards in their student financial aid programs. New participants and programs not only made demands on the need analysis system which were unforeseen by the original authors, but increased the need for a more inclusive governance procedure to maintain the system.

The first formal method of need analysis was developed by institutional members of the College Board in 1954 to establish common standards as to what families should be expected to pay toward college costs. At that time, awarding aid on the basis of need was a revolutionary concept. Along with the standards came a governing committee made up of representatives of colleges using the system. The participating schools agreed to use a common application form, subscribe to a set of principles of student financial aid administration, and share information on student aid with the College Scholarship Service (CSS). Beginning in the late 1950's CSS provided centralized calculation of student need.

The concept spread. By the mid-1960's the American College Testing Program (ACT) developed a similar need analysis system. It was at this time that the federal government began to authorize new programs of aid for needy students and to establish criteria for approving need analysis systems which could be used to award federal funds.

Both the CSS and ACT systems were designed to give financial aid administrators guidance in awarding aid, some of which was federal, some state and some institutional. Differences in the information required by institutions and states using the ACT and CSS systems often required students and their families to complete a number of forms.

Although there were ideas common to both systems and others developed at that time, there were differences in the details which resulted in varying estimates of expected family contribution (EFC). EFC equals student and spouse contribution from income and assets and, if dependent, parents' contribution from income and assets. Cost includes tuition and fees, books, supplies, room, board, transportation and miscellaneous personal expenses.

With the authorization of the Basic Educational Opportunity Grant Program (BEOG) in 1972, the federal government, using the existing need analysis systems as a guide, developed a separate formula to calculate BEOG (now Pell) eligibility. Typically, each year the Department of Education analysts determine what level of award will be possible, given a specific appropriation. In past reauthorization cycles, components of the Pell Grant formula have been changed to fit expected aggregate awards to available funds. The Pell formula is not so much a need analysis system as it is a technique to make awards in this single program. The regulations define limitations on cost of attendance as well as rules in determining expected family contribution. Use of these rules results in an artificial definition of need.

If appropriations for the Pell program are inadequate to meet aggregate need, a reduced payment schedule is developed. One of the effects of negotiating the payment schedule annually is a lack of predictability in program awards because negotiations often continue long past the date necessary to make awards in a timely fashion.

In the mid-1970's a national discussion was initiated under the umbrella of the National Task Force on Student Aid Problems (called the Keppel Task Force after the chairman, Francis Keppel). The Task Force included participants representing all postsecondary education perspectives and the federal government. Two principal objectives, which were achieved, were to develop a single system of need analysis using a single set of data elements. The single set of data elements enabled the use of similar if not identical application forms. These were critical steps in reducing the confusion experienced by parents and students applying for aid. Previously they were often required to fill out separate forms and received different indications of their expected contribution. It also precipitated the use, however imperfect, of UM data elements in the Pell system.

The single form and the single standard which formed the basis for the Uniform Methodology (UM) were agreed to in 1975 by participants in the Task Force. Ongoing informal review of the UM has become the responsibility of the National Student Aid Coalition, which evolved out of the original Task Force. The Coalition assumed the task of reviewing the Uniform Methodology annually to suggest regular modifications and updates to groups that use it.

Theory and Governance of Need Analysis

The UM is founded on the concept that a share of discretionary income and assets above a certain level required for basic subsistence should be available to pay the cost of attending a postsecondary institution. Discretionary income is that amount left over after a family has paid for the necessities of life. The amount required for necessities is determined by use of Bureau of Labor Statistics data and was updated annually to reflect changes in the cost of goods bought by average families at different standards of living. The updating is done by the student financial aid community because the Bureau of Labor Statistics no longer issues standard budgets.

Need is a simple concept. It is defined as the difference between expected family contribution and the cost of attendance. Need analysis is a procedure used to determine how much a family can afford to pay toward the cost of a postsecondary education. A related, but separate, concept is program eligibility, which is defined by a set of rules that determines which students receive financial aid. Factors other than need may be utilized in defining eligibility. Program eligibility may be defined in part by expected family contribution relative to cost but might also require attendance at an accredited institution, a certain grade average, or appropriate academic progress. Estimated need acts as a guide to a financial aid administrator in determining what help a student might require to pay the cost of attendance. Eligibility restricts which programs can be used to meet the need. Different programs have different rules of eligibility. For example, Guaranteed Student Loans may go to students with higher incomes than those receiving Pell Grants.

The concepts of need and fairness are central to awarding most federal, state, and institutional financial aid. In order to be fair, the system must treat families with similar financial strength in a like manner, which is called horizontal equity, and treat dissimilar families differently, which is called vertical equity. Families with similar financial strength should pay the same amount for the same cost education (horizontal equity) and families with different ability to pay should provide different amounts for college attendance (vertical equity).

As a mode of need analysis, the UM has involved several operational steps. Students and families fill out an application form which is mailed to a central

processor (CSS and ACT are examples) who calculates an expected contribution level. The expected family contribution is sent to one or more financial aid offices, a state agency where appropriate and any other organizations (specified by the student) which award financial aid. Data are also sent to the Pell Grant processor who prepares and mails to the student a separate Pell Student Eligibility Report (SER). The results help administrators evaluate the student's need for assistance by providing a preliminary determination of the expected family contribution toward education costs. Sharing data also helps coordinate information among different organizations in the aid delivery system.

Any system charged with defining equity in such a complex environment faces problems developing and maintaining a national consensus and applying the system to different types of schools and the diverse students attending them. There are a number of issues that need to be considered in evaluating the system's equity and effectiveness. These include:

- Whose income should be taxed? As the number of divorces, remarriages, unmarried mothers and older students multiplies, it becomes difficult to decide which family unit should be responsible for contributing toward the cost of attendance.
- How can unlike forms of wealth be compared? It is difficult to compare a farm family which owns its land and home but doesn't make much income to an urban family that rents and has few assets but has a higher income.
- Students face different costs. A student living at home with parents while attending college has different costs than a student who is a resident in a college dormitory. A student with dependents faces different living costs than a single student.
- Use of current versus previous year income has always caused problems in the system. Current year income is estimated but may be more reflective of actual ability to pay for college. Previous year income can be confirmed and its use assures greater credibility and accuracy. Using previous year data suffers from the fact that they may not reflect current conditions, particularly in the case of student earnings. Very different conclusions regarding need would be reached, depending on which year was used.

There is no definition of ability to pay or need that is accepted by all. Being needy in a high tuition college may not mean the same thing as being needy in an inner-city community college. Issues that have proven difficult to resolve include the definition of independent students, protection of the family's retirement funds and consideration of elementary and secondary school tuition as an allowance against family income. The UM doesn't always resolve these policy differences, but acts as a guide to aid administrators evaluating the financial need of different students. States and institutions often make systematic changes to the UM which reflect local conditions or disagreement with national standards.

The system must be "reasonable," which has been an important characteristic of the UM. There are policy questions about who should be eligible for assistance according to type of institution and income characteristics. Fairness is usually determined consensually because empirical data are not definitive. The postsecondary education community works constantly through a series of voluntary committees and meetings to maintain consensus on the need analysis system.

Certain basic principles and assumptions are the foundation of the UM.

- Parents have primary responsibility to finance their children's education.
- Ability to pay is based on an assessment of current circumstances and does not consider prior or future wealth or spending decisions.
- Both income and assets of the family are considered in determining ability to pay.
- Ability to pay is based on using a portion of discretionary income to pay college costs (discretionary income is income which is available after all necessities have been paid for). Families with no discretionary income are not expected to contribute toward the cost of attending school.
- Independent or self-supporting students must demonstrate, according to defined criteria, that they are not receiving any meaningful support from their parents.
- Students are expected to contribute a greater portion of their income and assets for education than their parents because they are the primary beneficiaries of the education received.

The system has to operate for different types of schools. For example, low tuition community colleges have students with different financial needs, on the average, than students in high tuition private schools. Proprietary schools, community colleges, and universities all use the same standards to judge a fair expected contribution from families. There are also regional or

state differences in income and cost of attendance that influence eligibility for aid.

The mechanics and operational structure of the system are so complex that it is difficult to make changes in one part without affecting other parts. The system requires careful coordination among participants with very different needs. This has resulted in a unique voluntary governance system compared to other public programs of financial assistance. It involves states, public and private postsecondary institutions, federal agencies, Congress, and other organizations associated with student aid programs. It sets standards to be used in awarding federal, state, institutional and private funds.

Because of its complexity, the current system is highly dependent on financial aid experts. At the same time, the system is based on a series of assumptions and values that define a national policy of fairness and appropriateness which should be open to public debate. It is difficult to maintain the balance between professional expertise and the expression of public values in the governance system. Governance of the need analysis system over the past twenty years has been a struggle to include representatives from all points of view to modify the system as it meets new demands or operates in new environments. The CM will enlarge the participation of groups outside the financial aid profession at the expense of the professional's ability to maintain a manageable and useful system of need analysis.

Operation of the Uniform Methodology

The UM has been used as a guide, but not as an absolute measure of contribution. A financial aid administrator can modify some aspects of the methodology to meet unique needs of the school and students served. California mandates several modifications to the methodology in the award of state money, such as expected contribution from student earnings and treatment of some business losses. This flexibility has led some to argue that it is not acceptable to have federal policy made by state or local financial aid administrators. It may be that the students Congress wants to help may be bypassed in favor of a population the college wants to support. A problem has been that Congress is not very explicit in defining who should be aided.

The basic UM calculation is different for students who are financially independent of their parents compared to those who are dependent on their parents' resources. For dependent students the following items are considered: Parents' income, parents' assets, and the student's (and the spouse's) resources. A portion of the income remaining after basic living costs is deemed available to pay for educational costs. A proportion of assets is protected. Assets include equity in a home, savings, investments, and other real estate owned. Part of the assets above a defined minimum are considered to be available to pay educational costs. Similar factors are considered for independent students, but the income measure used is estimated current academic year income instead of actual prior year income.

Verification of income is based on information from the year preceding the academic year in which the aid will be used. This permits confirmation of the income from tax forms. Independent students are allowed to use current year income estimates because their income often drops when they leave a job to enroll in college. The college is expected to monitor school-year earnings to make sure they are as estimated. Income includes both income from employment and tax free income such as child support, Social Security benefits and veteran's benefits.

If the parents are divorced or separated, only the income of the parent with whom the child resides is considered in determining need. As noted above, however, child support paid by the absent parent is considered as income of the parent with whom the child resides. The stepparent's income and assets are included and evaluated if the custodial parent has remarried and if the student lives at home for at least 42 days and receives $750 in support.

Deductions are taken from income to determine the portion available for education and other discretionary purposes: taxes paid (federal, state and Social Security), a "Standard Maintenance Allowance" which is based on historic Bureau of Labor Statistics' definition of what is needed to maintain a low standard of living, medical and dental expenses above a certain percentage of income, elementary and secondary school tuition expenses (which are excluded in determining need for California awards, as are secondary business losses), and employment costs where both parents or a single parent are working. The employment allowance reflects additional costs such as transportation, meals away from home and child care faced by working parents. The amount remaining after these deductions is considered to be "available" income.

Assets include cash on hand, home equity, other real estate and investment equities and a portion of the net worth of a business or farm. The same treatment is given to liquid and non-liquid assets. A portion of net worth is protected for retirement and is not considered to be available to pay for college. In a family where the oldest parent is age 52 nearly $41,000 is protected, while a 42-year-old could only protect $33,300. A portion of the remaining assets is converted to an income supplement which is available for college costs. The only exception to this is in the case of families with income so low that there is no discretionary income, at which time the income supplement is determined to pay for living expenses.

The sum of available income and the income supplement available from assets comprise adjusted income. A variable contribution rate is applied to this adjusted income, with a larger share considered to be available from families with greater financial strength. The contribution rates currently range from 22 to 47 percent. There are annual adjustments for inflation to maintain expected family contribution at roughly the same level through time.

The methodology assumes a minimum contribution from dependent students of $700 for freshmen and $900 for all others. Most schools in California use higher expected levels of student contribution. In 1987-88 the California Student Aid Commission expectations ranged from $350 to $2250 depending on the parent contribution. In addition, thirty-five percent of student assets is assumed to be available to pay for education.

The combination of estimated parent and student contributions results in an expected family contribution toward the costs of education.

Development of the Congressional Methodology

The federal Higher Education Amendments of 1986 include changes affecting the governance and operation of the need analysis system. All federal awards will be made using the need analysis system enacted by the Congress.

- Congress will need to pass a law to make all except minor changes in the system;
- There is a call to use a common form for all applicants;
- There will be a common calendar to be followed by the government in preparing for the following award year;
- There will be an advisory board appointed to advise Congress and the Secretary of Education on student financial aid.

In addition, a number of changes in the operation of the need analysis system are mandated. The Act contains detailed procedures which define parents' and students' expected contribution toward the cost of attendance. The governance and operational changes will influence both who is assisted and how changes are made in the methodology.

The calculation of student need is defined in the 1986 law and, with the exception of inflation updates, can only be changed by an act of Congress. This system will be used to award all federal student financial aid except the Pell Grant and State Student Incentive Grant Program. This is called the Congressional Methodology (CM) system.

The CM is based on the Uniform Methodology (UM), but includes changes in both definitions and methods of calculation. The CM makes significant changes in the definition of self-supporting (also called independent) students. The calculation of expected family contribution (EFC) will also be changed. The amount to be contributed by dependent students from their own earnings will increase in most cases. New categories of students, such as displaced homemakers and dislocated workers, will be treated differently than other students by the CM. There will also be changes in the calculation of the cost of attendance. A more explicit opportunity to use professional discretion is given financial aid administrators to modify the expected family contribution. The CM allows cost of day care to be included as a cost of attending school. These changes will result in different estimates of financial need for many students as calculated by the CM compared to the UM.

The 1986 amendments also direct the Secretary of Education to develop a short system of need analysis to calculate the need of low income (under $15,000) students. The legislation defines a limited set of data elements to be used in the short system. This is intended to speed up and simplify the process for low income students with few assets or other complicating factors. It is analogous to a short tax form.

The 1986 law defines a Master Calendar with which the Secretary of Education must comply in order to assure adequate notification and timely delivery of

student aid. The law also directs the Secretary to prescribe a common financial aid form to determine the need and eligibility of a student for financial aid authorized under Title IV of the Act. No student shall be charged a fee to apply for federal aid. California, and many institutions, require a form for which a fee is charged to apply for state or other non-federal student financial aid funds.

Finally, the law authorizes an Advisory Committee on Student Financial Assistance to be established in the Department of Education. The purpose of this committee is to provide advice and counsel to the Congress and the Secretary on student financial aid matters. This committee is independent of the Department and will make recommendations directly to Congress. The Committee is directed to comment on the system of need analysis, monitor the effectiveness of the student aid delivery system, recommend data collection needs, review regulations, recommend studies, and suggest student information requirements. The Committee's only specific power is to identify inflation factors to update the need analysis system annually.

Operation of the Congressional Methodology

The CM is related conceptually to the UM, but there are several significant differences between the two systems. Most apparent is the treatment of independent students. Independent (self-supporting) students were treated somewhat differently than dependent students in the UM. Under the CM, the independent student expense budget will no longer include expenses for anyone except the student. Independent students with dependents, including spouses, will have their contribution calculated in roughly the same way as parents of dependent students. Independent students with no dependents will contribute between 70 and 90 percent of their base year income toward the cost of attendance or $1,200, whichever is greater. These changes represent a significant departure from the UM.

Estimated year income (academic year and summer) is used in the UM to determine the estimated contribution for independent students instead of previous or base-year income. The use of estimated income compensates for radical drops in income dependent students experience when they leave a job to return to school. This is changed in the CM, which requires base-year (prior calendar year) income to be used. This will decrease student need in many cases and increase need in others if the aid administrator does not change the income values.

The definition of independent student is changed in the CM. Students will automatically be considered independent if they:

- are age 24 or older, or
- are wards of the court, or their parents are deceased, or
- are veterans of the Armed Forces, or
- have legal dependents other than a spouse.

Students who do not meet the above qualifications are independent if they are:

- graduate students who will not be claimed as dependents by a parent for income tax purposes for the first calendar year of the award year;
- married students who will not be claimed as dependents by a parent for income tax purposes for the first calendar year of the award year;
- single undergraduate students, not claimed as dependents by a parent for income tax purposes for the preceding two calendar years, who can demonstrate self-sufficiency for the same period through an annual income of $4,000;
- otherwise determined to be self-supporting by a financial aid administrator.

Under the CM independent students with dependents will be treated differently than independent students without dependents. The treatment generally increases the expected standard contribution from $700 and $900 to $1,200 for independents with no dependents and decrease contributions expected from independent students with dependents. There are corresponding changes in the calculation of student expense budgets for dependent students with dependents which will offset some of the changes. The benefits will be greatest for married couples with no children and less for independent students with large families.

These changes will have significant implications for graduate and professional students, many of whom will be declared independent under the new law who were dependent under the UM. This will result in a potentially significant increase in the estimated need of graduate students. However, use of base year income will increase the expected contribution from the income of independent students. It is possible, however, under the CM for aid administrators to require a parental contribution even though the student is defined as independent.

There are changes in the CM that apply to dependent students. The parental contribution will be divided among all family members, including parents, who are enrolled in college at least half-time. A version of this has been the case for the Pell family contribution schedule but not for the federal Campus Based Programs (College Work Study, Supplemental Educational Opportunity Grants and Perkins Loans) awarded under the UM system. The dependent student contribution from income will be equal to the greater of the minimum expected contribution ($700 / $900) or 70 percent of base year income less taxes. Potentially, this will increase the expected contribution from most students.

These changes are written into law and, with the exception of annual updates for inflation, can be modified only by Congressional approval. The change to the CM has significant implications for the amount and type of federal aid for which students will be eligible. In California, estimates of aggregate need change very little, but specific applicants may thrive or suffer relative to awards they would have received under the UM.

The new law includes provisions for student financial aid administrators to exercise discretion and professional judgment in making adjustments to the cost of attendance or expected family contribution. It also allows supplementary information to be used in making an award. These changes must be "adequately documented." The option has always been implicitly available but is made explicit in the new law. Discretion allows the financial aid administrator to be sensitive to individual cases that are not easily dealt with using standard formulas.

There is a significant positive correlation between the financial aid experience of the director and the probability that centrally-processed need analysis will be modified. Financial aid administrators making the greatest changes administer substantial amounts of institutional funds in addition to public dollars (Van Dusen and Higginbotham, 1984). In other words, experienced aid officers in four-year schools are most likely to change the results of the system.

There are several possible explanations why financial aid administrators might not make changes. There are no right or wrong answers, so some financial aid administrators are hesitant to make changes. New or inexperienced aid administrators may lack the knowledge to feel comfortable about the options. There is fear auditors will question the judgment of aid administrators after the fact. There may be institutionally imposed limits on aid administrators as to the level of risk they are allowed to take in making changes. There is constant pressure on aid administrators from parents, campus officials, and special interest groups to exercise personal judgment, which may make it difficult to approve exceptions where warranted and resist those cases where it is not warranted.

Schools with less sophisticated personnel are more likely to follow the rules and not exercise the professional judgment option, either because they don't undertand their options or do not have the staff to prepare the required documentation. Offices that exercise the option will face significantly higher operating costs because of the time required to review individual cases and prepare documentation.

Some financial aid administrators may misuse professional discretion. New regulations or laws designed to stop flagrant misuse of professional judgment will invariably reduce the amount of discretion available to everyone. This has the potential effect of reducing the opportunity for local aid administrators to operate with the latitude that is currently envisioned.

Several issues are raised by this switch to the CM with its Congressional governance system. First, what will be the effect on California students? Second, will the CM distort the operation of need analysis and become a rationing device that reflects the political and budgetary needs of Congress, but not the financial needs of students and their families? Third, will this system become more complex as each narrow interest group argues for inclusion of its pet amendment in the CM formula? Fourth, will the difficulty of making changes through Congress thwart needed evolution resulting in an outdated system of need analysis? Finally, will the mandated changes and implementation problems overwhelm the capacity of the student aid community to operate? Critics of the CM predict a difficult future for the new system. Supporters suggest that not much will change and that the expressed fears reflect the anxiety of facing the new and untried.

Implications of the CM System

Alternative need analysis systems and eligibility definitions have been developed for different programs. The Pell Grant Program has a federally mandated eligibility system which is different from the UM, which was used until 1988-89 to award the federal campus based programs (Perkins Loan Program, College Work

Study Program and the Supplemental Educational Opportunity Program). This is because the Pell formula is used, in part, to limit awards to the amount of money appropriated by Congress for the program. Many argue that the Pell formula is not a need analysis system at all but a program eligibility system (Heffron, 1984). There is risk that the CM system will fall prey to the same arbitrary rules and annual changes to meet short term fiscal or political needs as has been the case in the Pell Grant Program. It is easier politically to redefine eligibility than to admit an inability or unwillingness to meet computed financial need. This approach would render the CM useless in judging ability to pay or in assessing aggregate need. The same cost control and political issues present in the Pell Program dominate debates about the GSL Program. GSL program costs can be controlled by changing either the eligibility rules or the level of need defined by the CM. The CM could become the same type of rationing device as the Pell formula. This would reduce its value in determining a student's need for assistance from other programs without regard to availability of funds from the GSL Program.

Over the years GSL loans have been awarded using several different standards of eligibility and definitions of need. Currently the UM is being used by the GSL program, but beginning in 1988-89 the CM will be used. At one time, Guaranteed loans were made with no consideration of need. There have been several permutations of need and eligibility in between these two extremes. As in the example of the Pell Grant, the changes have been motivated by concerns for the federal budget and needs of lenders, not an empirically supportable or rational definition of need.

States and institutions may use different systems of need analysis to award their own aid. Typically items can be added to the UM form as a modification or addition. For example, California has used a more restrictive definition of independent student than the federal government to award state dollars. The California Student Aid Commission will use the CM to determine need for state awards in order to eliminate confusion in the administration of programs at the campus level. Most California colleges will use the CM for the same reason. It may be that states and schools will continue to want to collect supplementary data from applicants.

The sectors in California's postsecondary community that will be most directly influenced by the change to the CM are universities with large graduate and professional programs and community colleges with large numbers of adult students. The California Student Aid Commission staff estimates that, compared to the previous California definition of independence, the new definition will result in a slight decline in the number of students declared independent (18.6 percent to 16.5 percent of Cal Grant applicants). The new definition of independent student will produce significant changes in status for some students. Roughly 8.4 percent of Cal Grant applicants will change dependency status using the new definition.

3. GOVERNANCE QUESTIONS RAISED BY THE ADOPTION OF THE CONGRESSIONAL METHODOLOGY

Criticism of the CM

The most critical change initiated by the 1986 legislation is in the governance of the need analysis system. There will be a transition from control by the postsecondary student financial aid community that has maintained the system over the years to a forum outside the postsecondary community. This change has long-term implications for the evolution of the need analysis system.

The California student financial aid community has a number of fears about the change; chief among them is concern about the impact on student and institutional finances. Many believe Congress will make the system less fair and more difficult to operate. Federal dominance of the student aid system belies the fact that most of the administration and 25 percent of the funding is provided by non-federal agencies.

There has been agreement over the years that a partnership is the most effective way to operate the aid delivery system. The various committees and organizations such as CSS and ACT, which operate and maintain the UM, represent interests that need to be coordinated if the system is to operate successfully. The central focus of this cooperative activity has been the UM. The imposition of the CM, which will be difficult to change and includes new participants petitioning Congress, will result in a loss of collegial participation that has characterized the UM.

It is too early to tell if the UM will continue to be used for awarding non-federal aid. The complexity of trying to use two methodologies suggests that the CM will become the dominant system. The decision of the California Student Aid Commission as well as other states and institutions to use the CM is evidence of initial acceptance of the new system.

The Congressionally determined system will complicate the governance process. The political process may change the system in response to narrow special interests as opposed to rational or broadly accepted changes carefully reviewed within the postsecondary community. The responsiveness of the system to local and state professional concerns may be reduced. Financial aid experts will become another special interest group among those concerned with the issue. The daily experience of student financial aid administrators provides pragmatic expertise regarding the problems of students and families. In contrast, others may represent a more conceptual or ideological agenda. There may be a loss of accountability experienced as the decision making process is moved away from the financial aid community to Congress.

Shifting control of the need analysis system to Congress will accelerate movement of the student aid system decision making process away from educators and professionals in postsecondary education toward interests outside the education establishment. For example, lenders and guarantee agencies in the GSL

program will become more involved in defining the need analysis system because the CM will influence loan volume.

Recent changes in the GSL program to make eligibility contingent on need may tempt Congress to modify the need analysis system to control program costs. The same thing could happen to the CM in the future as happened to the Pell system in the past. Making loans on the basis of need is good public policy, but the CM may become the focus of tensions between lenders whose profits are determined by loan volume, a Congress that wants to control program costs and others in the student aid community concerned with institutional and student interests.

To this point lenders have not been directly involved in debates about the UM. The inclusion of the GSL program under the rules of the CM will draw the lending community into the debate about changes in the CM since the methodology will have direct influence on loan volume and profit possible in the program.

The aggregate cost of the federal campus based programs is controlled by the amount appropriated by Congress and will not provide the political tension present in the GSL and Pell Programs, the costs of which are controlled by the rules of eligibility and need analysis as opposed to Congressional appropriations. The CM is more specific about who is eligible to receive campus based aid than was the case under the UM.

The chief concern of many in the financial aid community is that the CM will reflect the political and budget needs of Congress. Congress will be responsive to specific constituency concerns and amend the methodology to serve special interests. Accretion of these short term changes will make the system both difficult to administer and to justify. Examples include the special treatment of dislocated workers and displaced homemakers in the CM. The purpose may be laudable, but the resulting administrative problems will be difficult to handle.

The Department of Education has provided a definition for both terms. A dislocated worker is one who has been terminated or lost a job because of a plant closure or a natural disaster. A state agency such as the state employment office must designate a worker as dislocated. A displaced homemaker is one who has not worked out of the home for five years and has received public assistance or support from relatives. It will be difficult for an aid office to confirm these conditions and to calculate the awards correctly.

In the past, Congress would give general definition to a policy. The Department of Education would write clarifying regulations; but in this instance they are precluded by law from doing so. The postsecondary community will have to devise some ad hoc procedure for providing these definitions. This will require more direct negotiations between the student aid community and Congress.

There is the constant risk of using the need analysis system to justify reduced spending for student aid programs. By adjusting the methodology to indicate less aggregate need it is possible to reduce program expenditures. This would undermine the credibility of the system as a meaningful and agreed-upon definition of need.

Because Congress is responsive to the interests of a number of constituencies, it will be difficult to change the need analysis system quickly. The legislative process is inherently conservative, and it may be that components of the CM will continue to be used long after the financial aid community has determined that other calculations of need would be more appropriate.

Regardless of how it evolves, the application of a single rigid standard of need applied across the diverse student and institutional conditions in the country may result in inequities for individual students. The possible lack of willingness of new financial aid administrators to exercise the available discretion may result in more rigidity than framers of the law expect.

There is not always agreement in the financial aid community on important issues. Besides the unsolvable technical and value issues mentioned before, there are differences in self interest among schools, states and other organizations involved in the delivery of student aid. The Keppel Task Force and the National Student Aid Coalition were designed to foster willing compromise among the participants. Moving the debate to a broader political forum may undermine this history of agreement. This potential lack of agreement in the aid community could prompt Congress to take its own direction.

The potential rigidity, awkwardness and unfairness of a politically designed system might result in the use of other need analysis systems for the award of state and institutional aid. This would increase the complexity of the application process for students and families. Such an outcome would reintroduce the problem which was resolved under the UM of

explaining why students are eligible under one system and not the other.

Even though processors will, at least initially, provide the information for all three systems (CM, UM and Pell), it will be confusing and may lead to an increase in the amount of information collected from applicants. There will be greater risk of over- or under-award problems. The system will be more prone to error because of increasing complexity.

The use of multiple systems may result in the proliferation of adjunct forms designed to meet the needs of unique institutional and state requirements for information. This will very likely result in additional information being required of students applying to several schools and making the application process more complicated.

There will be implementation problems. There will be confusion as definitions and procedures change. Changes in eligibility and awards will be most evident in the GSL program. The Department of Education cannot publish regulations clarifying the intent of Congress as it relates to the CM. There will be ambiguities in the law that will not be defined except by community agreement.

Changes in administrative systems and procedures will be necessary for institutions, states and others in the system. There will be different rules for dependent students, independent students without dependents and independent students with dependents. For each category of student it will be necessary to determine which system to use. If the individual's income is below the minimum, the simplified system should be used. If the individual qualifies as a displaced homemaker (use base year income and exclude home equity) or a dislocated worker (use estimated income and exclude home equity), there needs to be a different treatment. Finally, the regular CM rules can be applied to each of the student categories.

Support for the CM

Congressional staff believe the changes are justified on several bases. Their argument is that Congress should control the system because it allocates federal money which makes up the major share of student financial aid. It is inappropriate to have federal policy made on a case-by-case basis or in a system developed by participants that may have other interests than those expressed by the Congress. One justification of the CM was the belief held by key Congressional representatives that campus-based program awards were not being made to the right students. The campus based program awards were believed, in some instances, to be going to middle income students rather than the low income students. Congress believes federal dollars should serve federal purposes and not purposes a particular college may define for the program. Congressional spokesmen indicate that the UM is just as politically derived and unrelated to an empirical definition of need as any system devised by Congress.

According to Congressional staff the UM serves the needs of institutions, especially the higher cost schools, and is less responsive to the needs of students and their families than a Congressionally defined system. Any system of taxation, and that is what the need analysis system is, represents a series of value judgments about what is socially good. Congress is better at making those value judgments than a group of professionals representing institutional interests.

It is suggested by Congressional staff that there was a substantial risk the administration would modify the UM in significant ways if Congress had not taken control of the process. It is better to have Congress make these political judgments than the administration. Those favoring continuation of the UM argue that the threat of administrative dominance of the need analysis system could have been avoided without moving responsibility for the system to Congress.

Congress argues that the system will not become static and out of date. It is expected that minor changes will be made annually with reauthorization every five years or so as a time to consolidate and overhaul the CM if necessary. The incremental change is likely to be in the direction of greater liberalization and increasing eligibility. For example, early indications are that there will be changes in the treatment of home assets as a result of Congressional reading of public sentiment.

There is opportunity for discretion to be exercised by the student financial aid administrator. No one is bound by some mindless mechanical system. The argument that the CM will be of advantage to more sophisticated financial aid offices and pose greater administrative problems for less well staffed aid offices is not telling, because that is already a problem and will be no different in the future.

4. CRITICAL ISSUES

For most financial aid administrators, students and families, the change from UM to CM will result in confusion. It will require changes in computer systems, forms and procedures. Students and families receiving aid under the UM may find themselves with a reduced package under the CM. The lack of federal regulations, as bad as they may be, will add to the confusion. There are still unanswered questions as to what the impact will be on students and institutions. Revisions will need to be made in state procedures and material developed explaining the new system to students. The opportunity for financial aid administrators to modify the system in their work with students has been expanded; the loss of influence for this group is the ability to change the methodology itself.

The litmus test that determines which side of this debate one is on is the degree to which one believes the UM is a true test of need or simply another politically derived mechanism to solve a number of allocation problems among institutions, states and social classes. If it is a true need test, it is inappropriate to turn the process over to Congress. If, on the other hand, it is already a political process it is more appropriate to put it in the hands of Congress than leave it with student aid professionals.

The CM will be used to deliver federal financial aid for the foreseeable future. The key question is whether moving the decision making process to Congress will result in a need analysis system that provides a coherent definition of diverse social interests or whether it will evolve by way of special interest pleadings into a system which is increasingly difficult to understand and administer. The student aid community will need to continue arguing for a rational and useful system by pointing out to Congress the problems that will be faced if their advice is not followed.

The appointments to the Congressionally mandated Advisory Committee will be important in determining what role that body will play. The Committee will have an annual maximum budget of $500,000 and operate independently of the Department of Education. It can only offer Congress advice, but with a good board and a relatively large budget, it could be an influential group in changing the need analysis system.

It is not clear how CSS and ACT will operate in the future. As long as institutions and states want the services the organizations offer, there will be a role for them to play. The Department of Education is working with the processors to make sure they are able to meet the more rigorous edit checks mandated by the new law. Even though the CM dilutes the administration's influence in need analysis, the Department appears to be playing an ongoing role in the methodology.

A plausible argument can be made for California students benefiting under the new system, even though the tendency is to believe the CM will be a problem in the long run. As the largest state, California has high potential for political influence. If

Congress is going to make changes in the need analysis system it helps to have lots of members to talk to, and California has the most. The governance system will require the student financial aid community in California to organize so they can provide suggestions to Congress regarding changes in the need analysis system. That mission will require a high level of internal agreement in the profession as to what needs to be done.

An equally plausible argument can be made for potentially negative impacts of the CM on California students and institutions. California is different than the nation; changes made in the need analysis system may have unforeseen consequences in California. The relatively large number of independent students in community colleges and university graduate programs will pose the greatest potential for problems.

The possible interaction between these changes and California's unique students and institutions is difficult to estimate because of the freedom available to financial aid administrators to modify the results. Outcomes depend on the degree to which results for particular students are modified or accepted at the campus level. If the CM results are accepted there will be significant shifts of aid among students. If the results are modified by aid administrators, almost nothing may change.

The best prediction to make is that the immediate future will be a great deal like the past. Changes will continue to be made in the need analysis system. Given the complexity of the task and the vagaries of changing values and conditions that influence any public policy, no matter how the governance process is structured, there will always be tension to change and dissatisfaction with any change.

This does not mean there will not be severe dislocations in the transition from the UM to the CM. Technical problems with forms and computer systems will be difficult to deal with initially. The governance process will become increasingly complicated as it is controlled by a political body. Chances for distortion and dislocation in the need analysis system will be increased. Distancing the immediate experience of the financial aid administrator from the decision-making processes will decrease the sensitivity of the process to changing conditions on campus. Changes in the governance system suggest the role of campus student financial aid administrators will be more political.

It is critical that the CM serve as a true need analysis methodology which can be used to determine a student's need for assistance from all sources without regard to availability of funds from any particular source. The CM should not be reduced to a formula determining eligibility for a particular program. It should promote consistency in awards and allow applicants to deal with a single result. If the CM fails to do this, the process will become more difficult for families to comprehend and institutions to administer and students will not be served well.

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